

Brian Clark Interview
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Anneliese Warhank: Today is May 24, 2017. I am here at Fun Beverage Incorporated, in Kalispell, Montana, with Brian Clark. We will be talking about the distribution industry in the state of Montana and its relationship with the craft beer industry. Brian one thing I just wanted to do before we get into your stories, particularly, do you mind explaining, in a nutshell, as best as you can in a nutshell, how the three-tier system works in the state Montana.

Brian Clark: I wish it were as simple as a nutshell, but essentially the three-tier system is a system that basically mandates the separation of the alcohol industry into three separate and distinct tiers: a manufacturing tier, an independent wholesale distribution tier and retailer tier. In so doing, that protects and preserves the interests of all three tiers and the structure is based on the lessons learned from an industry that basically had no regulation prior to the 18th Amendment. Then, a radical swing from no regulation to absolute Prohibition to what we have today in basically in place in all fifty states is one based on a series of checks and balances to protect and prohibit the abuses that led to Prohibition, which is essentially balancing economic interest and public health and safety interests. It is somewhat counter-intuitive to the general free-market capitalist approach that the greatest availability that lends to the lowest price, is in the best interests of the consumer. But as the country learned, some products, namely intoxicating products that can have outside social costs, the greatest availability at the lowest price is not in the best interest of the public.

AW: All right.

BC: Montana, essentially, established their laws on Title 16 is based on those principles that were established with the passage of the 21st Amendment ... the repeal of the 18th Amendment, with the passage of the 21st Amendment in 1933.

AW: Okay, so in the state of Montana, manufacturers cannot self-distribute at any level, correct?

BC: Not quite.

AW: Okay.

BC: Historically, they could. There have been exceptions made for ... since we're talking about beer, for craft brewers.

AW: Okay.

BC: Of a certain size. Therein lies kinda the dilemma. The very regulations that have helped contribute to this phenomenal renaissance and rise of craft brewers, is because there have been, since 1933, a prohibition on all manufacturers from retailing. There was a prohibition on all manufacturers from buying and owning or in other words, coercing or inducing taverns or retailers to own them lock, stock and barrel. That has helped foster this craft. Imagine if for the last eighty-four years, the big brewers had been buying up every retail establishment. How easy would it be for Bayern to get a tap handle, as Jürgen [Knöller] has testified many times, in Germany. He couldn't get on tap because those tap handles are bought and sold by the people who have the most money.

AW: Uh huh.

BC: So that has been in place, but with the growth of the craft industry in the late-eighties and early-nineties, not unique to Montana, but in many states, these brewers were looking ... if we could only have an opportunity to retail some stuff ourselves, well how do you give it in business? How do you permit one licensee and do something without discriminating against the other? i.e. there's Commerce Clause issues. Essentially, there's been a solution that will base it on size.

AW: Okay.

BC: Small people, whatever the definition may be of small, can have limited self-distribution. Every Montana brewer under 60,000 -- who produces less than 60,000 barrels, which is every Montana brewer, has the right to self-distribute if they so fit.

AW: Okay. All right. That is self-distribute in terms of the tap room?

BC: Self-distribute is actually if they want to, they can load it up on the truck and deliver throughout the state to bars, restaurants, grocery stores.

AW: Are you aware of any brewery that's actually doing that?

BC: A couple are. I think the largest self-distributing brewer, again, I think, is Sam Hoffman, out of Red Lodge.

AW: Okay.

BC: But he uses, he does self-distribution in some places and uses distributors in others.

AW: He has the option of self-distributing?

BC: So do guys who and almost everybody who starts up, does some self-distribution at the get go until their volume gets enough where they realize they wanna focus on what their passion is, which is brewing beer and not making deliveries on Saturdays and Sundays.

AW: All right.

BC: The tap room is an altogether different scenario. A key thing that is really shaped what's happened in Montana in this industry. It's not unique to Montana, either. It's happening across the country.

AW: All right. Great. That's a great overview. Thank you. How did you come about working in the distribution industry?

BC: When I was going to school at Montana State University, I ... one of those kids, in the old days, you paid your way through school and it wasn't that expensive. The way to do that, was you worked part-time and went to school. I was on the six-year plan, not because I was stupid, it's because I took time to ski and worked in between. I worked for the Coors distributor in Bozeman at that time.

AW: What distributor was that?

BC: It was a Coke-Cola distributor, who then bought the independent Coors guy. That was Lehrkinds

AW: Okay

BC: Lehrkinds Coke-Cola, Mountain Country, Coors and they essentially working for them, I look at it as financed my way to a degree in business management at Montana State University. After that I got hired

by then Adolf Coors Brewing Company and worked for them in Golden, [Colorado], St. Louis, Seattle and my goal was to get back to Montana. I was fortunate to do that and got back in Missoula and was the western state manager for Coors.

AW: Okay. What year?

BC: That was '82.

AW: 'kay.

BC: When I graduated and went to work for Coors. In '83, I was back in Montana working for Coors. In '85, I had the opportunity to run this business up here, Fun Beverage in Kalispell. So, I left Coors and moved the family up here.

AW: All right.

BC: Been here ever since.

AW: Awesome. In the pre-interview questionnaire, you mentioned Fun Beverage was an early supporter of the craft beers in the 1980s with such brews as Pete's, Full Sail and Samuel Adams. What about these beers or the market convinced you to take a chance on them when domestics were still king?

BC: When you're ... in those days, there were three local distributors and then a fourth distributor, who was from in Missoula, coming into the market. When were a distant number three. We were the smallest guy. Instead of feeling, I guess fat and sassy because we sold all the Rainer we could get our hands on or sold all the Budweiser we could get, and we didn't have any of those brands. We were also a wine distributor and saw that it was the issue of variety and flavor was a compelling attribute that you could see consumers gravitating to. In the early craft days, there really wasn't a big Montana guy. The innovators in the early-eighties was, you know, Pete's. We embraced those guys. When they knocked on our door, we said yes, we're very much interested.

AW: Wow! So, you saw the market itself

BC: It was very small. We saw that as essential to our survival and embracing these new Now we weren't convinced and 100 percent confident they were going to catch on. It's been a long time coming. I can tell you today, in 2017, much of our company's success was because of decisions we made twenty, twenty-five years ago. Our success today, we took a chance on them and it certainly paid off 'cause the consumer today is very different than the consumer thirty years ago.

AW: Yeah, so how about getting those into the retail side? How open were taverns and grocery stores to actually putting them on tap and on shelves?

BC: It was more of a challenge then, but there was a certain novelty to it. Again, the most innovative retailers, were the ones who were accepting of it. It was a small group. It wasn't a large group. You know, today craft distribution is much wider than it was twenty some years ago. Non-chain retail could take it on and there were select accounts, especially on premise. Originally, with the Pete's and the Full's, there wasn't much draft. It was those guys had come out in package and bottles. That was easier to take a chance on than buying a fifteen-gallon keg, but things started changing.

AW: So, baby steps, pretty much?

BC: Baby steps. Absolutely.

AW: I should probably ask, too, what is your reach in distribution? Where exactly do you distribute in the state of Montana and surrounding areas?

BC: All the distributors in Montana, because of the vastness of Montana and our geography and low pop[ulation], cover a lot of miles. I'm gonna give you a number that sounds big, but we're actually one of the smaller geography. We service about a 10,000-square mile geography, with about 400 licensed accounts. By law, we're only allowed to, again, part of the system of checks and balances, sell to licensed accounts. That includes bars or restaurants, grocery stores, so forth, convenience stores. So, it's essentially from here to the Canadian border. East to Glacier National Park and west to the Idaho line. South, we go as far south as Holland Lake Lodge, down in the Swan [Valley].

AW: Okay, great. Let's see, so you obviously are slowly starting to embrace craft beers, but in the eighties, of course there really wasn't much to offer from the Montana-based craft beers. What about it, come the nineties, what convinced you to start distributing Montana beers such as Big Sky, Bayern, Lang Creek to name a few?

BC: For us, Bayern was the guy. Now there had been ... we didn't represent them. They never asked us to, but the one that seemed to get on the radar first, was restarting Kessler [Brewing Company] out of Helena. It was represented by another distributor, but there were signs. There were signs then, but most of the influence was coming from that Seattle, Portland area. You could see there was just an excitement, a passion growing. For us, it was Jürgen [Knöller] and Bayern and his product, his commitment, his dedication to quality. He was the first. It was an easy decision for us when he asked if we would be receptive to taking him on. It was an absolute yes, we're ready to take you on. It wasn't much longer, in fact, I was just checkin' the files, I think we were doing business with them a little bit before, but both of them essentially, I had my first signed distribution agreement for both Bayern and Big Sky in 1995.

AW: Okay. Wow!

BC: Big Sky, the story for that was when Bjorn [Nabozney] and Brad Robinson, they were going to ... I think they were still in school. They first came to us and it was just a college project. Came up to us and presented their college project. [laughter] The beer that they were leading with, was Whistle Pig Red.

AW: Huh.

BC: This was pre-Moose Drool.

AW: Wow!

BC: Whistle Pig, you know, I would trust Bjorn's recollection better than mine. If I'm wrong, let him clarify it. It was ... they asked we would ... it was draft only. Again, most of the early rollout, was draft only. No package.

AW: Okay.

BC: Same with Bayern. Draft was kegs only. We weren't even distributing it to where most of the business is done, which is at grocery stores and convenience stores. He [Bjorn] asked if we could get it on tap at the top accounts. The top accounts, back then, are the top accounts to this day. In Kalispell area, it was Moose's Saloon. In Whitefish, it'd be the Great Northern Bar. Quite frankly, Whistle Pig Red was not that good of beer!

AW: Oh no! [laughter]

BC: You put ... we got it on. Again, distributors have relationships with their accounts. Hey, give this a go! Our guy had credibility and they believed this and we're selling it in. People drink it and the key is, will they ask for it again. The answer was no! [laughter] But, it wasn't much longer. It was within months, they came out with another recipe and another label and the rest is history. It was brown ale, it was Moose Drool brown. There was an absolute winner! That was what launched them. Just remembering the humble beginnings of a college project.

AW: That's pretty amazing! And the fact that you were willing to [unintelligible]

BC: Let me put it to you another way, I'm a diehard believer, having read *Toward Liquor Control*, having studied it for years, I was in the business for probably ten years before I started realizing why are these regulations in place? Why am I fingerprinted, and background checked when I own so much of the business? Why do I have these credit restrictions or ...? By design and purpose and intent, the democracy of the alcohol industry was as an independent distributor, I should be willing to take on these new products. I don't decide what the consumer wants. I just put it in distribution by playing by the rules as outlined in the *Laws of Montana*. The reason we're called distributors is 'cause distributors are supposed to distribute. My job is to get out there. Get it on the retail shelf. Get it in the bars and taverns and let the consumer decide whether it's a winner or not.

You gotta understand, part of the industry, there was a period of time where the big brewers were getting more and more power, fewer and fewer of them and they were exerting their will on what supposed to be an independent distributor network. Montana is a state that does not allow, which most states don't allow, brewers to own distributors because that violates the issue of independence. The distributors ... I could be like a car dealer, in our case, if Miller Coors had a complete control of us, they would not allow us to take on any of these other brands. That's not good for the public. That's not good for the consumer in my opinion. That's not good for a thriving beer industry. We've always paid attention to that. Have been more willing because that's our job. That being said, if the brand gets out there and it doesn't sell, then I'll make the decision, well it didn't work, we're not gonna carry it anymore.

AW: All right. Were you involved in the lobbying either for or against, the taproom bills in the 1990s? In general, were distributors hesitant or supportive of the tap room legislation?

BC: Were talkin' 1999 Legislature? When it actually passed, finally?

AW: Yes, in '95 or '97 at all?

BC: Yeah, I've been in the business as a distributor since '85. Our association was involved with all that. I was involved with that as well. Not a point person, but involved with those issues. That's where we're dealing with ... we have to be very careful what we do about dismantling regulation. When you look at a brewer, this is why you're in business today is because there's laws that kept these giants [from] preventing you from being in business. It kept these giants from making ... mandating that their distributors can't distribute you. When you change things, be careful about the legal consequences and perhaps, be aware of unintended consequences. It was going through my files before this meeting today, I was reminded, especially when things ... that there'd been a lot of discussion between the associations of the multiple tiers. Although I don't recall a real strong, what I would call, I don't think there was even a brewer's association back then.

AW: Very loose organization.

BC: That put them somewhat at a disadvantage because they couldn't necessarily speak with one voice. Meanwhile, at that time, the Tavern Association was unquestionably the kinda supreme leader of what

took place in the alcohol industry in Montana at that time. Reading through some notes, saw like it was in '95, I saw notes where execs and Mark Staples had talked to brewers and still wasn't common ground on what could and should be done. When '99 passed, I'm looking through our association, it was interesting. It wasn't ... it didn't seem to be the top priority of issues in terms of on our radar because there were other big things happening in the industry at that time.

AW: Do you care to elaborate at all?

BC: You have the giants, in other words, the Anheuser-Busch and the Millers and Coors. In fact, at that time, Miller had just ... in the process of getting bought by SAB. Also at that time, Miller was coming down with new contract with their distributors. It violated multiple areas of Montana law, at the same time, which was essentially, attacking distributors' independence. We weren't connecting the dots at the time, but those things were going on as well as in the late-nineties, early 2000s. Now, it's been ten years since the craft renaissance. There was a shake-out happening. There was a lot of brewers were going under. There was a lot of bad beer out there. You saw these things happening at the same time. So, the sample room exception wasn't the top issue on our agenda, but again, other than what happened ... actually, probably still is. The '99 passage was the last time all three tiers had a kumbaya moment. [laughter] That has since faded.

AW: Huh? Wow! Well, you said there was a kumbaya moment, but ...

BC: 'Cause everybody was in agreement. You know what, it passed. It was one of those things, so it's March or April of 1999. It doesn't go into effect until October of '99. In silence. There actually weren't that many more breweries starting up. It took a good ten, twelve years before the impact of sample rooms started adversely affecting certain members of the industry. Right? It wasn't an overnight thing.

AW: No. No. Did you ... You said there weren't a lot of startups going on, but did you feel any tension during the time working with both the brewers and the taproom owners?

BC: In that time, of course there was tension, but it was a great compromise at the time. Although it has helped shaped ... have some influence on what we've done today. We were not ... there were ... we were not fully aware of all the consequences of that decision. This really rudimentary, simply written exception did not address ... I think using the current vernacular of today, enough sideboards to clearly define what a sample room can and cannot do. Those weren't put in there.

AW: Wow!

BC: What some of the sample rooms became and what others expected that they were, were two vastly different things, ten years later. I think the lesson from that is when you make changes to a highly regulated industry, you have to be aware of both intended and have forethought to identify potential unintended consequences down the line. Fast forward to last month, the passage of, in my opinion, [HB] 541 is progress. Significant progress. But then again, I don't own a liquor license that I paid a million dollars. I may feel a little different about that.

AW: Interesting. So, do you feel to this day, any sort of tension? I mean, basically, you have to balance relationships between the manufacturers and the retail, so do you feel like there's a balancing act?

BC: Absolutely! Because you've hit ... that's what our role is. We are a regulated balancer. I used to take ... to me the symbol was the scales of justice. Although that's always when show law firms or whatever, but in the sense, the three-tier system is based on a manufacturing tier. Then, there's that fulcrum, that middle thing and everything goes through the middle. The middle is supposed to be just do

what's in the best interests of the state, reflective of the state laws and regulation. We are a middleman, whose primary objective is to balance the economic interest and the public health and safety interest. That does put you in a situation where you can't please all the people, all the time. But quite frankly, the only ones you're not pleasing, are the ones who may not have the best motivations.

Doing what's in the best interests of most of us, is the thing to do not just reacting to the self-interests of some of us. There's a difference. When you look at the alleged abuses of what some ... the tavern industry thought of some of the sample rooms. They were probably ... there were some ugly players who pushed the limits of law. But most didn't. Of course, there's some tavern folks who pushed the limits of other laws. Of course, there always the worst of us, but they should not be the poster children for all of us. That's how it works too often.

In the end, our positions have always been as a distributor because of that role, that fulcrum, that middle tier, and our understanding of the store or relevance and our understanding of. ... Let me back up a little bit. The most competitive, the most variety and choice of any consumer good in the United States, believe it or not, is alcohol. That is, not in spite of its regulation. I would argue it's actually because of its regulation that prevents the abuses. The ultimate goal of those with the most power can buy up all the business and most of the competition.

There's a great image ... if you look at the soda pop aisle, big long aisle. It's mostly all this red stuff, Coke-Cola, and then all this blue. That's free market competition. Then you go to the beer aisle and tell me which one has the more choice. Which one has more variety? Oooh. The regulated one, that actually has laws that prevents anybody from buying that shelf space, from paying that retailer to keep something out or just put your stuff in. Most of the space in the soft drink business and other consumer goods, is bought and sold.

So, why's the regulation on this product and not others? Because it causes ... it has the potential ... number 1, it can be illegally used and it is most certainly can and is abused by certain segments of the population. Those costs to society are far larger than other consumer goods.

AW: All right. Let's see. So, you did mention, and I apologize I did not write this down, you mentioned some federal regulations that went into effect.

BC: I think one of the biggest was ... the stuff I've studied and read. It really changed the makeup, was under the Carter administration. I think it was '79. It was essentially the federal passage that legalized home brewing.

AW: Oh right!

BC: Then, so you're talking '79. So, you're looking essentially roughly another five to ten years, you see all these great startups occurred after that date. They all have dealt with rules under the 21st Amendment that says each state gets to determine how they will regulate the manufacture, sale and distribution of alcohol within their own borders.

AW: Right. Oddly enough, Montana homebrewing is legal until the nineties. Even though there were, if I'm getting my stories correct, I don't always do it, but I believe that you could not actually manufacture beer at home, despite the fact that there were homebrewer stores in operation. So that was a part of the original tap room bill in '95. That portion got passed, but the tap room bill, itself, did not pass. So, it's really interesting to see how different states progress at different . . .

BC: Correct! Though it may be economically inefficient for big business to have modify their business practices in each state, I don't know if it's necessary ... I don't ... as *Toward Liquor Control* points out, are not the values of the citizens in Salt Lake City different than the values of the citizens of New York City? One is not right and one is not wrong, but let the state or more importantly, each community, decide what they want to do with an intoxicating product. Then, that is the key difference on all the regulation with alcohol. It's a socially sensitive intoxicating product. You can't ignore that.

AW: Definitely. Wow! That's ... that's

BC: That's the difference. It's not good or bad, but pre-Prohibition, U. S. total ethyl alcohol consumption was about eight gallons per person per capita. Since the repeal of Prohibition, it really hasn't changed. It's about 2.6 gallons since then. We were ... we consumed a lot of booze before then because it was everywhere. Interestingly enough, what this 7,000 or 5,000 breweries active and another 2,000 permits, there's not really more beer being consumed today than there was ten years ago. We just shifted

AW: All right. Have you felt any pressure from the domestics to consolidate to with other distributors? I've read that that has been happening.

BC: Yeah. Yeah.

AW: Yeah.

BC: I believe we, Fun Beverage, would not be in existence today if we had not acquired the Miller-Rainier distributor. The Miller-Rainier Gallo Distributor in 1999. Oh yeah, that may've affected some of our focus on the tap room exemption, too. At that time, we went from a company of about thirty of us to about seventy of us overnight and doubled our business. That clearly was an issue that if we hadn't purchased the leading competitors to purchase it were guys who were out of state and significantly larger than us.

AW: Woah.

BC: We ... bigger is not a guarantee of better. It's just bigger. I can tell you it was ... yes our name is Fun and we do have fun, but it was more fun when were smaller. It was more fun where there was only about twenty-five or thirty of us, you know. Now that there's eighty-seven year-round and approaching a 100 every summer because of the seasonality. We were forced to consolidate or be bought out.

AW: Oh!

BC: So, we made that decision. Of course, the Miller distributor was selling because Miller did not approve their successor manager. They didn't like who was gonna run the business. The principal had died. The successor manager was the distributor's daughter and they didn't want ... they didn't accept her. So how independent are they? They were essentially forced to sell. They could get their best price and there were three or four of us vying for it, but again, that was forced consolidation. We ended up buying the Miller distributor. Miller wasn't happy about it because we were the Coors guy. But at the same time, we had state laws that said they could not prohibit -- unreasonably prohibit us from acquiring because we were obviously decent operators. We made money, so they couldn't say we weren't qualified. Interestingly enough, a year later, SAB buys Miller and then a year or two after ... a couple years after that, Miller ... SAB Miller and Coors get together, you know. First, you're criticizing you for doing it and they forced you ... it's always done in their best interests. Yes, we felt that. There are, we do have protections, which is basically state law that they cannot unreasonably withhold or restrain and it gets

down to the principle of distributor independence is important for the vitality of the three-tier system in the state. Montana, to its credit, has upheld that.

AW: Wow!

BC: I would argue, not to take anything away from the great beer that's being produced by Montana brewers, but were there not independent distributors and franchise protections in Montana? I believe the sixty-some odd brewers today, would have a far different scenario in trying to get their products into distribution.

AW: Okay.

BC: I know the fourteen guys ... that fourteen Montana brewers that we represent, especially the older ones from the nineties and the early-2000s, those guys are have a great deal of confidence. But their production brewers. Their business depends not only on what they do in their sample room.

AW: Right.

BC: But their business because they have production and packaging and draft. A brewer, if they put in a new tank, they're job is to make sure it's running at capacity, not running at fifty percent. They need distribution and they value the relationship with distributors. Now, of the what sixty-some distributors, I mean, brewers in the state right now, most of them are primarily the sample room model. They're not even ... they don't ... they're not looking for ... toward distributors for business 'cause their model is based on what they sell through the tap room. They'll all have to ... will choose or have to make a decision one day, do that they want to stay within that model or do they want to expand. They have the right to self-distribute.

Usually, everyone will start by testing the waters by self-distributing their product. If it's successful, then they'll ... so maybe we can go a little further. Then they start knocking on distributor's doors. In the end, it's a mutual choice. We have, what, a couple other startups -- Backslope [Brewing] in Columbia Falls, Bonsai [Brewing Project] in Whitefish, H.A. [Brewing Co.] in Eureka -- that are either just all sample room or doing a little bit of limited self-distribution. All the other brewers have got to the point where they've ... they're interested in getting distribution. We picked up Cabinet [Mountain Brewing Company] a year or so ago. Kalispell Brewing just selected Flathead Beverage.

AW: Okay, well that pretty much answers my follow up question. Just the challenges that brewers faced with deciding exactly how far they want to get into the distribution business.

BC: In my opinion, a brewer should expand their business because they want to not because they have too. There's a big difference. In other words, if you're not making enough money to be sustainable in whatever and then you start looking at that, that's probably the wrong reason. If you're successful and you know we're ready to ramp up and do more, we don't have to do it. We do because we want to. That's a different business model. Brewers generally knock on the distributor's door when they're lookin' for distribution. Distributors evaluate a brewer based on what's the product like. First and foremost, you gotta believe that the product. You keep ... your salespeople need to believe in the product. Then, like any relationship, do we have similar objectives? Can we agree on what each other's expectations are? Like any relationship, if there is a divergence between expectations, you have trouble. The better you can spell out one's relationship at the get go -- this is what somebody expects, this is what we can do and you work it out together. Relationships are really good. The fundamental thing to that, it's always has been and will always be open and honest communication.

AW: Awesome. Funny how that ...

BC: Funny! [laughter]

AW: Important in so many things in life! [laughter]

BC: In some many things, it is. [laughter] There've been brewers who've come and gone, who had unreasonable expectations, or their product wasn't in the bottle or in the keg. Or there was not repeat business. Probably one of the best things, a lot of the Montana guys, least the ones we have represented -- the Bayerns, the Kettlehouses, the Big Skys, the Blackfoots, when they rolled out into our market, they had a reputation that preceded them. Distributing something with a positive reputation is much easier to sell than something that never heard of it or bad reputation.

AW: All right. Do you have any thoughts on the recent acquisition of independent craft brewers by the large domestics, like Miller's, Coors and ABM Bev?

BC: Yes. Number one, I'm not surprised. That's how American capitalism works. Always has been, but again, we're dealing with a socially sensitive product that is the only product in American history to be the subject of two amendments to the U. S. Constitutions. There Each state will deal with those things differently. The largest brewer in the world, now owns ten U. S. small brewers. That is a key component, given this ... if you can beat 'em What's the saying? If you can't beat 'em, join 'em. In other words, Anheuser Busch or Miller Coors is prohibited ... big brewers, as all what used to be big brewers, for eighty-some years were prohibited from owning retail licenses. But almost every state has crafted small brewer exceptions to allow, like the sample Small brewers, it was 10 now 60,000 barrels to own and retail their product. Every brewer that ABI has purchased has a sample ... has a small brewer retail exception. ABI is not allowed to have a retail ... they can't own a bar themselves. But if they can buy a brewer, that gives them retail access. That gives them more opportunity to sell the product. I'm not surprised by that, but therein lies the danger and why when HB 541 passed, Montana put in a definition of size. If a Montana brewer is now owned by Anheuser Busch, they're no longer a small brewer.

AW: Right.

BC: That doesn't take away ... anything away from the quality of their product. But that exception that was designed ... that retail opportunity, you need to forgo that because becomes the slippery slope that over matter we inadvertently dismantled the very thing that allowed us to thrive and operate in the first place.

AW: Wow!

BC: That's the way I view it. But I'm not surprised by it. The BA, the Brewers' Association, is definitely facing These are some great brewers. That doesn't mean they're no longer producing great beer. Although there are some data I read recently, they all of their businesses seem to have grown. Of course, there's tons of money being put into them from these big guys.

AW: Right.

BC: But that is destabilizing to the feature of other startups and smaller players. Because at least you were kinda competing on the same playing field. Now you're competing with the guy who looks small, but he's got the largest, global brewer in the world financing him.

AW: Yeah. Wow! What effect, if any, do you believe the increase in the barrel limit will have on the demands on the distributors in the state and the surrounding region?

BC: I'm one of the people who's definitely for it. Had been for it, for some time because the sample room, again as a distributor, the sample room although it does compete with us on a level. When there's really not anymore beer being consumed, the sample room is taking that away from some other consumption opportunity, but it is a marketing tool. It is a tasting tool. It is ... and everybody loves to go to Mecca. Go to the shrine. Go to the wellspring. That becomes a positive experience. If they have a good experience there and then they see it at the grocery store, they ... I get that. I think we all should get that. That is good for the industry as a whole and the data certainly has supported that. Reasonable exceptions are still that do not ultimately undermine or destroy the three-tier system that evolved because of a changing demographic and consumer attitudes is what needs to be done. I know the [Montana Tavern Association] MTA may have a slight ... but I think in the end, they got ... they supported it in the end and they got a cap over the plank. They got limits on how many licenses ... how many brewer licenses a single entity can have. They combined those. I think that can help pacify, you know, their concerns because they are more immediately affected than us, but that's business we didn't get either. We see it ... we estimated it's about two or three percent of the business here that used to be all somebody else's business. You said it earlier, we're just shifting stuff from one place to the other. If you're on the losing end of it, you can see why some I think in the end, it's gonna be okay for most of us. There will be the weakest performers in every tier will have their struggles, but those who adapt and evolve, I think will do okay. There is a shakeout starting to happen nationally.

AW: Oh!

BC: Again. It remains to be seen.

AW: Similar to what happened in the late-nineties?

BC: In the late-nineties, early 2000s, there was a quality issue and there was a softening. I don't see the quality issue. I think it's a saturation. It is a ... there's no more tap handles to have and they rotate all the time. How do you build your business if you're only on for a couple of weeks and then you're off again? The grocery store shelf is just You have all the local stuff. You have all the national stuff. You have all the regional stuff. Everybody's coming out with flavors and there's only ... there's like diminishing returns. That is starting to happen. Even the most recent BA report clearly shows that the larger national guys ... large national craft brewers didn't grow. The regional guys didn't. All the growth basically came from what they defined as micros -- those producing less than 15,000. The amount that's going through tap rooms, is never been bigger.

AW: Oh.

BC: But is that enough to survive on long-term? If there's I'm not passing judgement one way or the other on the quota system, but there are reasons for limits. There are no limits on the number of brewery licenses. Imagine a street of just Main Street Kalispell with eight taprooms back to back to back. Will they all survive? Not likely. As competition ... what'll they normally do? They start getting ... they lower their prices and they push the limits of the hours. They push the limits of the serving. There are no limits. Back ... but if there's already a softening and there's not more beer being consumed or purchased, and the growth is not happening again, the last to the dance are faced with some dilemmas. So, we need to be cautious about what's coming because I think the shakeout is coming because you're now competing with all these other brands and all these people who have expanded into markets that they weren't in before. Well-run local with quality products and sound business plan, in my opinion, will do just fine. There'll be timeless.

AW: Wow! Do you see this shakeout affecting any breweries in Montana or do you think it's more of the super-saturated places such as California, Oregon and Colorado first?

BC: One of the Yeah, I think so. I think one of the things we benefit from, is our geography. You know, it's, again it's another counter intuitive -- we don't have a lot of people, but if you're the only brewery in that town and there's a lot miles between you and the next one, that's gonna help insulate you from the But, you know, Missoula has ten now? How many more sustainable? I don't know the answer. But like everything else, there is a point of diminishing returns. There aren't more consumers and the consumers aren't drinking more. How do you compete for share of stomach?

AW: Right. Wow! I don't have any more questions. Is there anything else you would like to add?

BC: Oh! Some numbers. Your first questions was pre tap room craft beer in the state.

AW: Oh yes!

BC: You commented about that. I didn't really get a take on any Montana guys until '95, it was Bayern and Big Sky. So, I pulled my numbers from '95. In '95, our total beer distribution, I mean sales, was 355,000 cases. The 62,000 cases of that, was craft, which put us on the higher side because we'd been early adopters. We'd embraced it. It wasn't a lot of Montana guys, but that did include, you know, Bayern and Big Sky and that was ... that 62,000 cases was about seventeen percent of our beer business. Fast forward to today, total beer that we sold was 1.1 million cases and 254,000 cases of that was craft. That was Montana and regional and national craft. That's twenty-three percent of the business. Craft ... Montana craft was 131,000 cases. Almost half of our craft sales is Montana craft. They were twelve percent of our beer sales.

AW: Wow!

BC: Montana craft has actually thrived as the whole industry has thrived. In '95, Bayern sold 1700 cases equivalences; it was only kegs at that time. Last year, they did just under 7000 [case equivalences] CEs. Big Sky did less than 1000 cases; just draft. Of course, it was Whistle Pig, so that first year. Last year, they did 25000 CEs. So, they've come a long way. It's been exciting to see that Montana, even though we have a large boom, in most of the top craft brands, that Montana even in our house, is 50, 52 percent of our total craft beer business.

AW: That's great!

BC: It is great! I would argue that's our job. That what we're supposed to do. I guess I have one more comment on the three-tier system and it's a quote. There's an industry, I guess an industry blogger. He has a newsletter. His name is Harry Schuhmacher.

AW: Okay.

BC: He had written about the three-tier system. Did a little primer about it. He finished it by saying when that about the three-tier system, that all of this is why the Granholm ruling, that was the challenge where this three-tier went to the Supreme Court. In other words, it was challenged in Michigan. It was referred to as the Granholm case. Characterized the three-tier system as unquestionably legitimate. He was saying it's also why ninety-five percent of Americans have never heard of the 21st Amendment or the three-tier system. It's one of those things that works so well that it's kinda taken for granted. When something works well, naturally we are inclined to dismantle it. Just to see what happens. It's same compulsion that drives everybody to put a moving car ... rental car in reverse. We know the outcome is bad, we just want to see what happens. It kinda summed it up well because you started with the three-tier question, but most

people don't understand it. It's easily dismissed from ... with the thing that right now in a climate all regulation is bad, if we just got the regulation out of the way, everything would be better. People really need to research the history of alcohol in the United States. The three-tier system is really a uniquely American system. Based on, as I said before, the abuses of no regulation and the absolute failure and lawlessness of Prohibition. It's been that balanced solution. People oftentimes think distributors are owned and operated by the brewers, but that couldn't farther from the truth. That balance system has worked really well. The craft part has been the most fun part of the business in the last so many years.

AW: Wow!

BC: When you think about it, just glad ... and Montana has done such a great job. Again, we've been ... because of our geography and low population, where were second in per capita breweries.

AW: Something, yeah.

BC: I think that will stay that way for ... because there really are opportunities there.

AW: Great. Thank you!

[recording ends]